

Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 AGR-20 FEAE-00 SP-03 AID-20 EB-11

NSC-07 RSC-01 CIEP-03 TRSE-00 SS-20 STR-08 OMB-01

CEA-02 L-03 H-03 PA-04 PRS-01 USIA-15 CIAE-00 COME-00

FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

DRC-01 SCA-01 VO-03 PPT-02 DOTE-00 FAA-00 /190 W

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R 222318Z AUG 74

FM AMEMBASSY GUATEMALA

TO SECSTATE WASHDC 4080

INFO AMEMBASSY MANAGUA

AMEMBASSY SAN JOSE

AMEMBASSY SAN SALVADOR

AMEMBASSY TEGUCIGALPA

LIMITED OFFICIAL USE GUATEMALA 4568

E.O. 11652: N/A

TAGS: ECON

SUBJECT: GOVERNMENT ANNOUNCES TAX PACKAGE

REF: GUATEMALA 4421

1. (BEGIN UNCLASSIFIED) MINFINANCE LAMPORT ON AUG. 21
ANNOUNCED TAX PACKAGE PROMISED AS PART OF GOG'S ANTI-IN-
FLATION PROGRAM. THE PROPOSALS BEING SENT TO CONGRESS
INCLUDE: (A) INCREASE STAMP TAX FROM CURRENT 1.5 PERCENT TO 2
PERCENT WITH WAGE PAYMENTS EXCLUDED, (B) INCREASE PROPERTY TAX
FROM CURRENT 3 PERCENT TO 12 PERCENT (ON SLIDING SCALE) ON PRO-
PERTIES VALUED ABOVE \$20,000 (C) 10 PERCENT INCOME TAX SURCHARGE
ON INCOMES ABOVE \$10,000, (D) INCREASE NOTARY TAX FROM CURRENT
\$0.10 TO \$0.25, (E) ADOPT SLIDING SCALE LINKED TO HORSEPOWER AND
AGE FOR AUTOMOBILE LICENSE FEES FROM \$30 (CURRENT RATE) TO
\$400, (F) ADOPT 10 PERCENT SPECIAL SALES TAX FOR AUTOMOBILE
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SALES, (G) INCREASE LIQUOR TAX

16 CENTS PER LITER AND BEER TAX 3 CENTS PER LITER, (H) INCREASE CIGARETTE TAX (RATE WILL BE 30 PERCENT OF CURRENT SALES PRICE), (I) 10 PERCENT AND 20 PERCENT TAXES WILL BE APPLIED TO LUXURY GOODS (IT IS UNCLEAR FROM REPORTS WHETHER THIS IS A NEW SALES TAX OR AN IMPORT SURCHARGE), (J) CHARGE FOR CONSULAR INVOICES (K) INCREASE PASSPORT FEES FROM CURENT \$5 TO \$15 AND CHARGE FOR VISAS AND (L) INCREASE AIRPORT TRAVEL TAX BY \$2 AND LAND TRAVEL TAX BY \$0.50. IN ADDITION THE GOVERNMENT HAS ASKED FOR MODIFICATION IN CERTAIN TAX LAWS TO REDUCE TAX EVASION. LAMPORT CLAIMED THAT THE NEW AND INCREASED TAXES WOULD YIELD BETWEEN \$30 MILLION AND \$35 MILLION ON AN ANNUAL BASIS AND A REDUCTION OF TAX EVASION WOULD BRING IN BETWEEN \$10 MILLION AND \$15 MILLION. HE ALSO EMPHASIZED THAT THE PACKAGE REPRESENTED COMPLIANCE WITH PRES. LAUGERUD'S PROMISE TO MAKE THOSE MOST ABLE TO AFFORD IT PAY THEIR FAIR SHARE. IN THIS REGARD HE NOTED THAT SALARIES ARE NOW TO BE EXCLUDED FROM STAMP TAX AND THAT SMALL STORES WITH ASSETS OF LESS THAN \$2000 WILL NOT BE REQUIRED TO PAY. HE DISMISSED THE TAX INCREASES ON BEER, CIGARETTES AND LIQUOR BY SAYING THAT SUCH GOODS ARE NOT NECESSITIES. (END UNCLASSIFIED)

2. (BEGIN LIMITED OFFICIAL USE) COMMENT:
WHILE THE EMBASSY WILL NOT BE ABLE TO PROVIDE DETAILED COMMENT ON THE TAX PACKAGE UNTIL IT OBTAINS COPIES OF THE COMPLETE PROPOSALS, OUR INITIAL REACTION IS GENERALLY NEGATIVE. NOTWITHSTANDING LAMPORTS ASSERTIONS THAT THE GOVERNMENT IS PLANNING TO TAKE FROM THOSE MOST ABLE TO PAY, THE ONLY QUANTITATIVELY SIGNIFICANT CHANGES IN THE PACKAGE INVOLVE STAMP, LIQUOR, BEER AND CIGARETTE TAXES-- AND THOSE ARE MOST CERTAINLY REGRESSIVE TAXES. EVEN THE EXCEPTIONS ARE MISLEADING: EMPLOYERS GENERALLY PAY THE STAMP TAX ON WAGES (AND THEY NOT THE WORKERS WILL BENEFIT) AND VERY SMALL STORES HAVE ALWAYS EVADED PAYMENT. OUR SECOND INITIAL COMMENT RELATES TO THE AMOUNTS THAT LAMPORT ALLEGES WILL BE GENERATED. ON FIRST READING, WE CANNOT PUSH COLLECTIONS (ASIDE FROM THE POSSIBILITY OF CRACKING DOWN ON EVADERS) MUCH ABOVE \$20 MILLION ON ANNUAL BASIS. FURTHERMORE, THE PACKAGE IS PUZZLING EVEN IF \$30 TO \$35 MILLION IS RAISED AS LAMPORT CLAIMS. BEFORE THE ANTI-INFLATION PLAN WAS ANNOUNCED, THE GOG HAD CALCULATED THAT ITS LIMITED OFFICIAL USE

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EXPENDITURES FOR 1974 WERE RUNNING ABOUT \$50 MILLION ABOVE BUDGET DUE TO ITS NEW PROGRAM OF SUBSIDIES AND COST OVERRUNS. SINCE INFLATION IS ALSO PUSHING RECEIPTS ABOVE BUDGET BY ABOUT \$18 MILLION, THE GOG THEORETICALLY NEEDS TO COLLECT FOR SUCH PURPOSES AN ADDITIONAL \$32 MILLION BEFOE DEC. 31. SINCE THOSE CALCULATIONS WERE MADE, THE GOG HAS ANNOUNCED ITS ANTI-INFLATION PROGRAM WHICH INCREASES GOVERNMENT SALARIES ABOUT \$20 MILLION ANNUALLY AND \$6 MILLION DURING THE REST OF THIS YEAR.

THE PLAN ALSO INVOLVES SOME ADDITIONAL SUBSIDIES, THUS THE GOG
WOULD SEEM TO NEED A TOTAL OF APPROXIMATELY \$40 MILLION MORE
THIS YEAR, AND MUCH MORE OVER FULL YEAR AHEAD. UNDER NO CIRCUM-
STANCES WILL THE PROPOSED PACKAGE GENERATE THIS REVENUE. AND
MOST CERTAINLY, THE PACKAGE DOES NOTHING TO INCREASE
REVENUES AVAILABLE FOR DEVELOPMENT WORKS. IT MERELY ATTEMPTS
TO KEEP PACE WITH INFLATION. AS INDICATED, THE DETAILED
PROPOSALS MAY PERMIT A MORE FAVORABLE READING, BUT WE DOUBT
IT.

DECONTROL AFTER 8/22/76

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